



CITY OF LINCOLN NEBRASKA

MAYOR COLEEN J. SENG

lincoln.ne.gov

Office of the Mayor
555 South 10th Street
Suite 208
Lincoln, Nebraska 68508
402-441-7511
fax: 402-441-7120
mayor@lincoln.ne.gov

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TO - City Council

FROM - Mayor Coleen J. Seng

RE - LES Proposed Rate Changes

As you know, during the holidays I worked with LES to add more accountability and annual reviews to the LES Board's request for a power cost adjustment (PCA). At that time, local employers expressed concern about the process by which the City ultimately would put an end to what could have been an indefinite PCA. I wanted more accountability and annual action on the PCA proposal. At my request, those elements were added to the proposed PCA resolution.

For the past few weeks, my staff and I have had an ongoing dialogue with both LES and the business coalition opposing the PCA. I am speaking on this topic again today because I am concerned about the potentially negative impact the PCA proposal could have on Lincoln jobs.

Last summer, the City Council approved new rates for LES that affected all electricity consumers. While I also am concerned about the overall impact of higher rates on residential users, I also recognize that large electrical users absorbed a higher rate increase (12%) last summer than did other users.

In my view, the PCA proposal still needs more work. It is ready for public hearing, but it is not ready for the City Council to vote. I do not support the PCA proposed for large business users. If it is passed by the City Council, I will veto it. Councilman Dan Marvin has agreed to introduce the amendment to remove the PCA and delay action for two weeks.

I have instructed LES officials to identify and enact as many cost-cutting measures as possible to reduce the need for additional revenue. I also have asked that alternative revenues from fees and other charges be explored to help address this LES budget issue. All alternative revenue possibilities must be on the table in our efforts to find an alternative to the current PCA proposal.

However, LES has indicated that even with new savings and alternative revenues, a rate increase of at least 4.5 percent will be needed to close the financial gap.

While my greatest concern in reviewing the LES proposals has been the impact it would have on jobs. I also remain concerned about the overall impact of higher rates on residential users. The final adjustments need to balance the impact on the overall community.

LES already is working to cut costs. In addition, Councilman Marvin and I have discussed a package of amendments that he will offer to strike the PCA for business users and replace it with changes in service and fee charges that have not kept pace with other utilities. These changes can generate new revenue to help eliminate the estimated shortfall. According to initial estimates from LES, updating the connection fee alone could generate more than \$1 million annually in new revenue.

In the interest of time, it is important that this matter not be sent back to the LES Board, but instead be finalized at the City Council level. Therefore, it would be best for the Council to go ahead and conduct the public hearing today. I also encourage you to support Councilman Marvin's amendments.

While the amendments should be introduced today, the amendments do not need Council action today. The introduction itself sends the message that an alternative is being prepared, but is not yet complete. It will take the rest of this week to complete the estimates and determine the final combination of cuts, fee changes and adjusted rates required to resolve this matter. My office will coordinate this effort.

I suggest the Council schedule this for action in two weeks on February 6. At that time, a complete solution should be available that will meet our needs and not leave the bond markets doubting how the LES financial issue will be resolved.